

# PRESENTATION TO SENATE SPECIAL COMMITTEE ON ECONOMIC RECOVERY

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# **An unusual recession?**

- Unusual: cause, speed of onset and depth
- Unusual: both supply-side and demand-side
  - Overseas and domestic shutdowns
  - Stay-at-home orders prevent consumption of goods and services
- Not unusual: recovery pattern
  - Recovery of output and employment will be slow
  - “Swoosh” rather than V shape



— Unemployment Rate  
— Total Unemployed, Plus All Persons Marginally Attached to the Labor Force, Plus Total Employed Part Time for Economic Reasons, as a Percent of the Civilian Labor Force Plus All Persons Marginally Attached to the Labor Force (U-6)

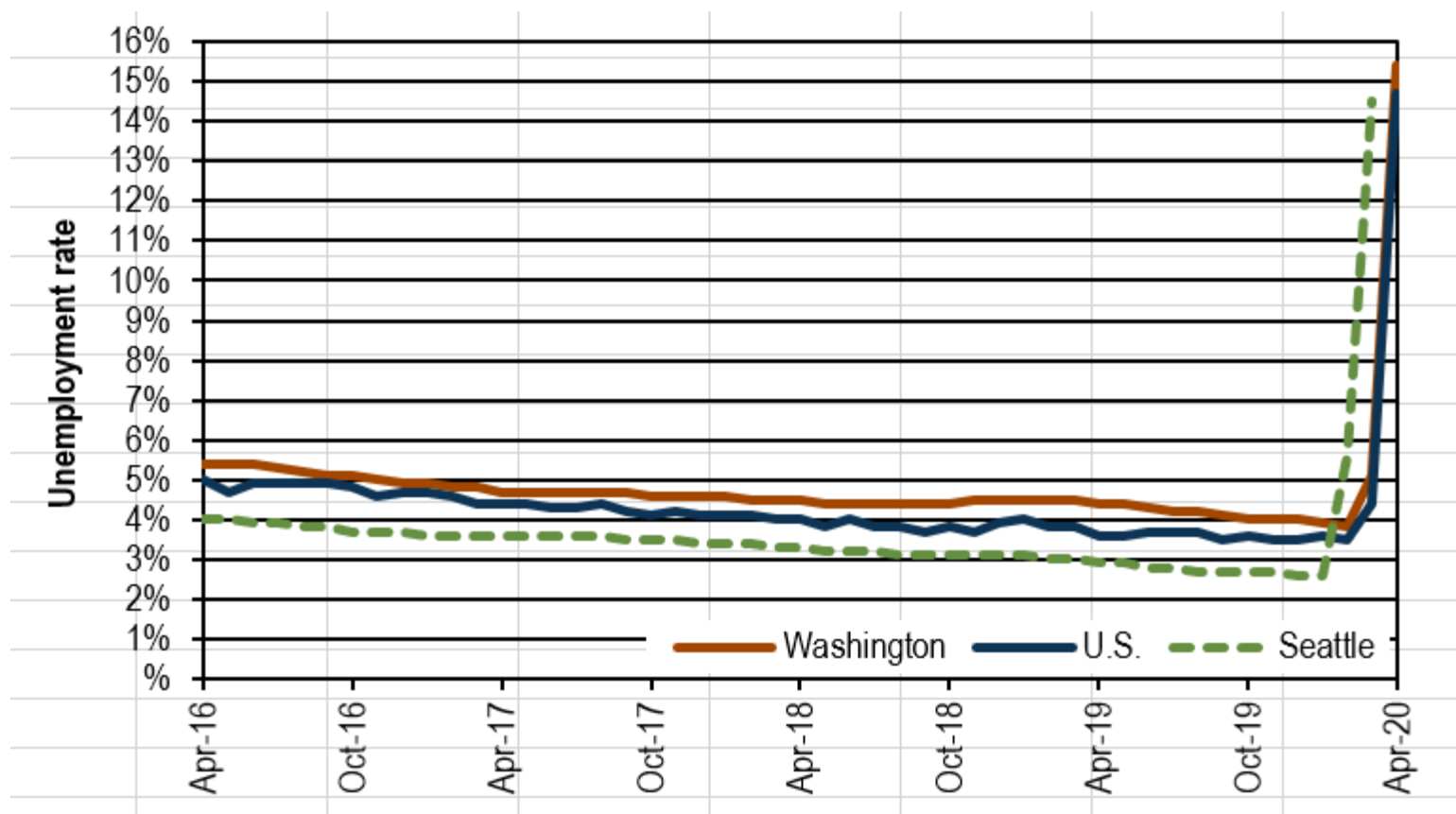


Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Labor Statistics

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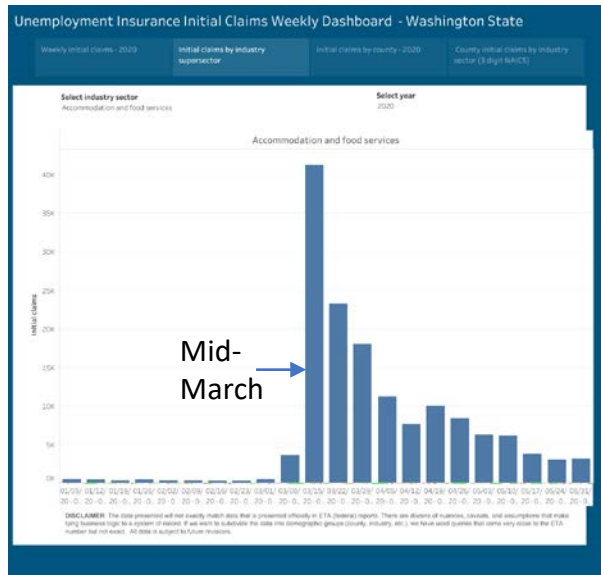
Source: Federal Reserve Economic Data, accessed June 15, 2020



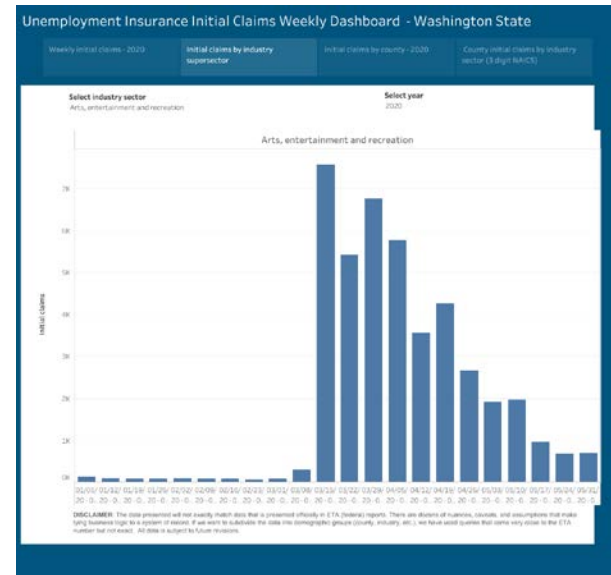
Source: Unemployment rates, seasonally adjusted, from Monthly Employment Report, April 2020, Washington State Employment Security Department

# Pattern of economic recovery

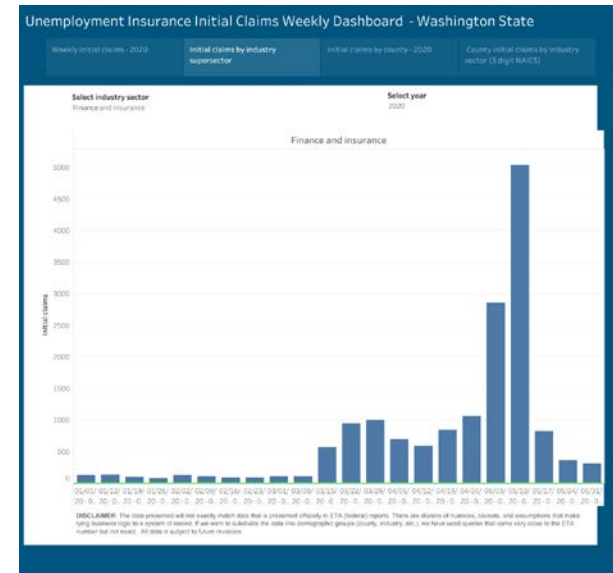
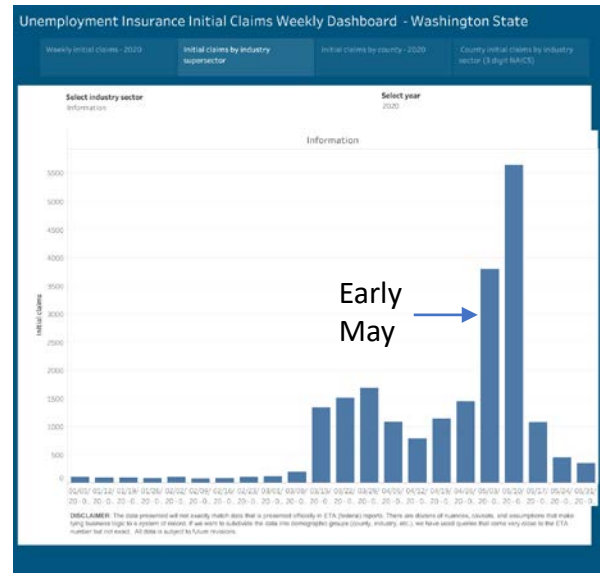
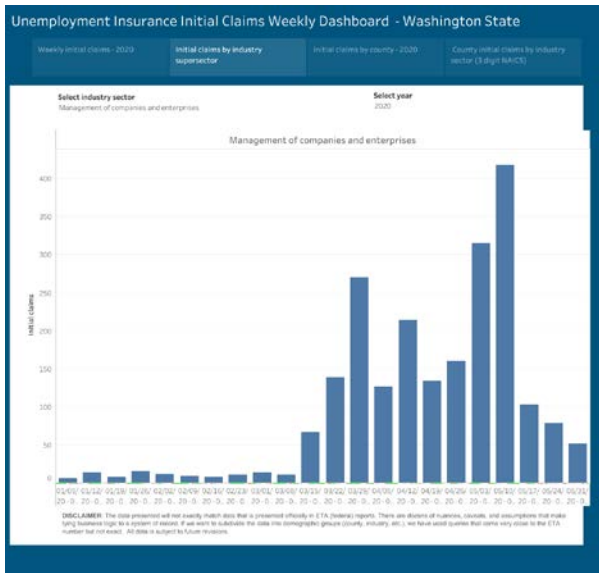
- Typical recovery of employment after recession is years-long (see slide 3)
- Initial hopes of temporary shutdown and quick snap-back of employment
  - Policy problem was maintaining firms and households through the shutdown
  - Economic pain would be confined to sectors like airlines, hotels, restaurants
- Once we saw ‘multiplier effects’ on other sectors, we knew there was a more generalized recession



Accommodation and food service  
Management Information



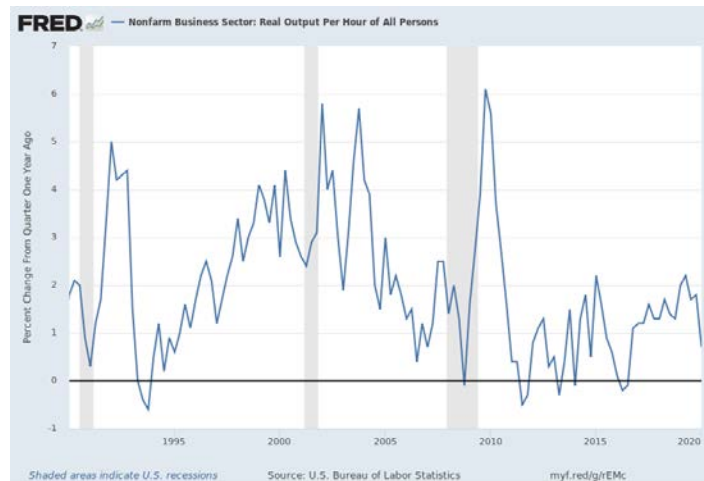
Arts, entertainment and recreation  
Finance and insurance



Source: Washington State Employment Security Department, Weekly Dashboard, Initial Unemployment Claims by Industry, accessed 6/14/20

# Recessions accelerate automation and productivity

- All 3 recessions over last 30 years led to big increases in automation, increasing productivity [Brookings Institution]



- Why is recession a good time to automate?
  - Interest rates are low, capital goods become cheaper, people are relatively more expensive

# **Structural unemployment is caused by permanent shifts in labor demand**

- “Mismatch” between skills and location of workers and the required skills and location of jobs
  - Long-term: requires re-training and/or re-location of workers
- Some examples of pandemic-driven structural change:
  - E-commerce accelerates decline in physical retail
  - Return of manufacturing to US to build supply chain resilience for future
    - Automation in manufacturing and distribution
  - Telework
- Structural change has broad multiplier effects – e.g., telework affects:
  - Office construction, demand for gasoline (and gas tax revenue), business travel/convention/hospitality industries



# **Policy responses to structural unemployment**

- Support education and job (re-)training using existing institutions, such as
  - Community college programs
  - Apprenticeships
- Support re-locations of jobs (office to home) and people (big cities to small)
- Support small businesses and start-ups